

February, 2000

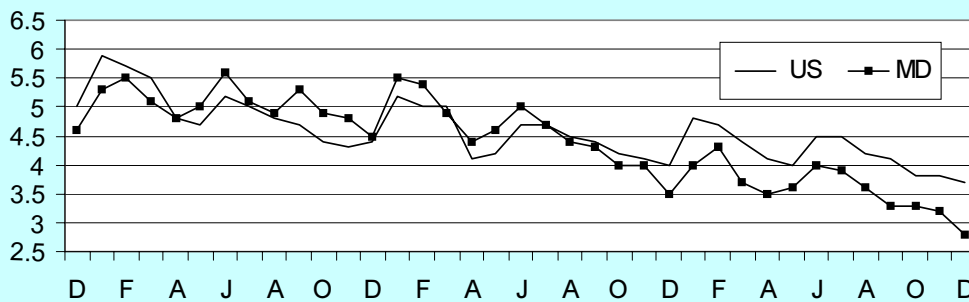
A Monthly Report on Maryland's Economy

Snapshot Maryland

Year-end data show that 1999 was a banner year for Maryland, following a strong performance the year before. The state performed well in terms of economic growth and business development. Entering the new millennium, the economy in both the U.S. and Maryland remain strong and vibrant. The strength of the national economy is evident in Maryland's record-low unemployment rate. It ranked 14th lowest in the nation. Of the 13 states with unemployment rates lower than Maryland's, rates were as low as 2.2 percent (Iowa and Minnesota). The highest unemployment rate was a mere 6.0 percent (West Virginia).

Maryland's December unemployment rate dropped to 2.8 percent, the lowest on record. Between December 1998 and December 1999, jobs grew at a rate of 2.1 percent—the same as the U.S. average. At this time last year, Maryland's job growth rate placed it at 28th in the nation, behind Virginia, which ranked 22nd. This year, Maryland's ranking improved to 17th, ahead of Virginia, which ranked 20th.

Unemployment Rate, MD vs. U.S.
December 1996 - December 1999



Jobs and Sectors

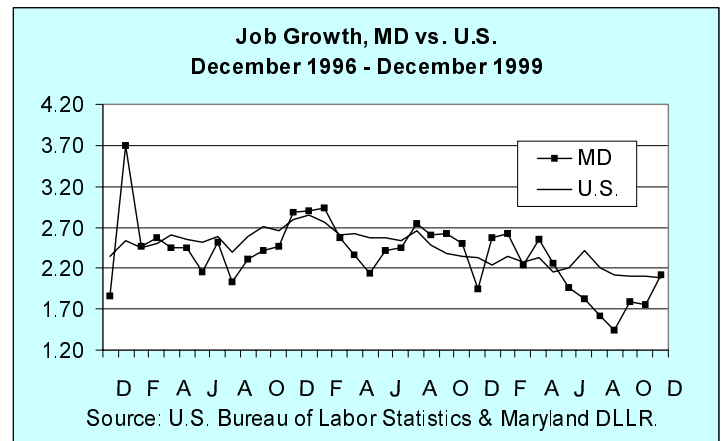
From December 1998 to December 1999, Maryland added 50,000 net new jobs. The state's job growth rate of 2.1 percent for the past 12 months was on par with the nation's. When calendar year 1999 data are released, we expect that Maryland's 1999 job growth will be close to the national average.

The manufacturing sector performed well in 1999, adding 700 net new jobs between December 1998 and December 1999. Nationally, the manufacturing sector lost 1.4 percent of its job base during the past year. Weekly manufacturing hours and earnings fell in Maryland during the past year. Nationally, average weekly hours fell slightly, but manufacturing wages

increased 3.5 percent. This suggests that inflationary pressures remain strong for the national economy.

Jobs in the finance, insurance and real estate sector grew 2.4 in Maryland and 1.9 percent in the U.S. during the past twelve months. This sector added 3,300 net new jobs during this one-year period. The transportation, communication and utilities sector grew at a 3.6 percent rate in Maryland, compared with a national average of 3.0 percent. This sector added 4,000 jobs from December 1998 to December 1999. The services sector continues to be a strong engine of growth both nationally and in Maryland. It added 27,300 net new jobs in Maryland—more than half of all new jobs.

Percent Change in Jobs December 1998 - December 1999		
	MD	U.S.
Construction	1.1	3.7
Manufacturing	0.4	-1.4
FIRE	2.4	1.9
TCU	3.6	3.0
Trade	1.9	2.1
Services	3.4	3.9
Business Services	4.7	6.3
Health Services	0.8	1.4
Government	0.6	1.7
TOTAL	2.1	2.1



Other Economic Indicators

- Maryland's unemployment rate stands at 2.8 percent in December—the lowest rate on record.
- Initial claims for UI fell 8.5 percent in December from the level of a year ago. Nationally, UI claims fell over 15.1 percent.
- TCA caseload fell 20 percent from December 1998 to December 1999. The number of closed TCA cases fell 44 percent.
- The manufacturing sector added 700 net new jobs from December 1998 to December 1999—a gain of 0.4 percent. In the U.S., the manufacturing sector continues to downsize, having lost 266,000 jobs over the year—a loss of 1.4 percent of the jobs in this sector.
- Weekly manufacturing hours fell over the year, to 41.6 in December 1999 from 42.5 a year ago. The U.S. average weekly hours remained virtually unchanged at 42.5.
- If inflationary pressures are measured by a rise in manufacturing wages, then Maryland has less to worry about than the nation as a whole. Average weekly earnings in

the manufacturing sector fell 0.3 percent in Maryland between December 1998 and December 1999, but rose 3.5 percent nationally.

- Indications are that home sales are slowing as rising interest rates started to have a negative impact on sales. Sales of existing homes fell 2.6 percent in Maryland and 5.2 percent in the U.S. between December 1998 and December 1999. The February hike in interest rates—and anticipated future increases—could further dampen home sales, which played a strong part of the boom of 1999.
- Permits for new residential units in Maryland fell 5.9 percent between December 1998 and December 1999. In the U.S., the number of permits fell 6.5 percent over the year.
- The job market continues to be strong. *The Baltimore Sun's* help-wanted counts rose 74 percent from December 1998 to December 1999.

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■ Focus: How Many Small Businesses?

Maryland is said to be a heaven for small businesses. The question is how many small businesses are there in the state, and what role do they play.

We define small businesses as those that employ fewer than 100 workers. Data are from the U.S. Department of Labor's ES-202 series. A business is defined as a reporting unit, rather than an establishment. To the extent that only one report is submitted by a business entity with more than one establishment, we are slightly undercounting the number of businesses. We are using this database because it is the most recent and most comprehensive.

During fourth quarter 1998, there were an estimated 148,284 reporting units in Maryland. Of these, 144,829 were small businesses. In other words, small businesses accounted for nearly 98 percent of all businesses in Maryland. These firms accounted for 47 percent of all employment and 44 percent of all payroll.

To look at the same numbers differently, larger businesses (100 or more employees) accounted for only 2.3 percent of all reporting units, but more than half of all employment and 56 percent of all payroll. The following table summarizes this information.

Employment By Size, Maryland Fourth Quarter 1998						
Size	Number of Units	Employment Monthly			Quarter	Wages (\$)
		First	Second	Third		
All	148,284	2,320,684	2,329,459	2,342,905	2,331,016	21,173,708,792
0	24,969	12,540	5,740	0	6,093	86,216,312
1-4	65,937	130,115	128,373	129,171	129,220	1,205,425,604
5-9	23,277	152,766	152,235	153,985	152,995	1,264,171,283
10-19	15,655	206,973	207,901	211,017	208,630	1,725,159,419
20-49	10,938	327,871	329,835	332,095	329,934	2,682,099,663
50-99	4,053	274,482	276,577	278,589	276,549	2,397,203,956
100-249	2,423	355,200	360,363	364,412	359,992	3,067,718,537
250-499	593	198,358	200,891	201,868	200,372	1,722,430,080
500-999	254	172,753	174,989	176,789	174,844	1,673,483,661
1,000 & Over	185	489,626	492,555	494,979	492,387	5,349,800,277
Less Than 10	114,183	295,421	286,348	283,156	288,308	2,555,813,199
Less Than 20	129,838	502,394	494,249	494,173	496,939	4,280,972,618
Less Than 50	140,776	830,265	824,084	826,268	826,872	6,963,072,281
Less Than 100	144,829	1,104,747	1,100,661	1,104,857	1,103,422	9,360,276,237
Less Than 500	147,845	1,658,305	1,661,915	1,671,137	1,663,786	14,150,424,854
% of Total						
Less Than 10	77.00	12.73	12.29	12.09	12.37	12.07
Less Than 20	87.56	21.65	21.22	21.09	21.32	20.22
Less Than 50	94.94	35.78	35.38	35.27	35.47	32.89
Less Than 100	97.67	47.60	47.25	47.16	47.34	44.21
Less Than 500	99.70	71.46	71.34	71.33	71.38	66.83

Source: Maryland DLLR & Maryland DBED.

Sustaining the Current Expansion

With the U.S. economy recording the longest economic expansion in post-war history, policymakers are now confronted with maintaining this vitality in the face of various imbalances in the economy. But monetary policy, relying mainly on changes in interest rates, cannot directly address all of the excesses in the economy. Transitioning to a more sustainable rate of growth may not be a smooth process, especially if problems external to the U.S. economy arise as the Federal Reserve tries to cool down the economy.

Recent reports continue to depict a booming economy that is outpacing what many economists believe to be its potential — 3.0 to 3.5 percent GDP growth annually. Preliminary figures for fourth quarter 1999 show real GDP growth advancing at a hefty 5.8 percent annual rate, with consumer spending being a primary driver. This follows on the heels of a third quarter GDP growth of 5.7 percent. As a result, real GDP has grown by at least 4.0 percent for three consecutive years,

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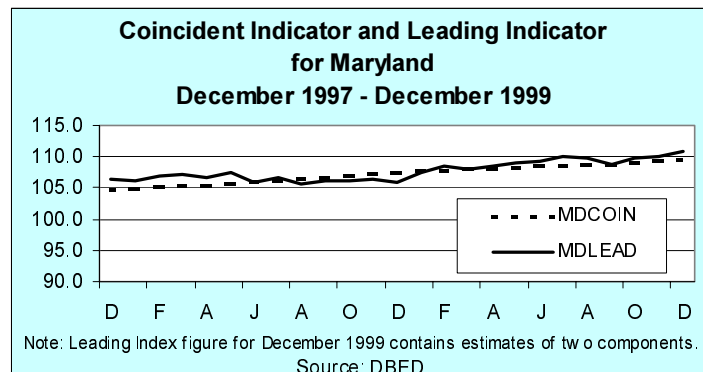
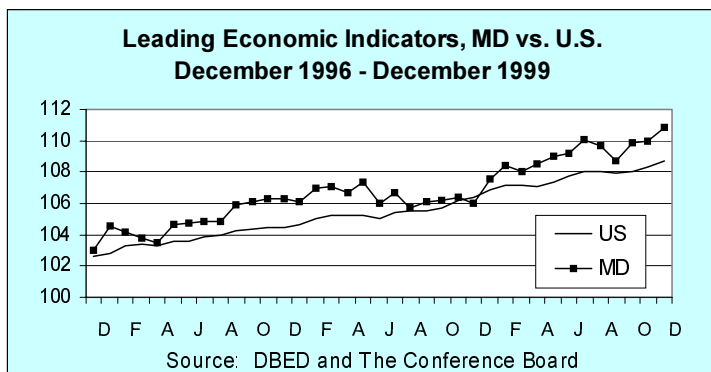
Maryland Leading and Coincident Indices

BWI data were not available as of this writing, and the index of leading indicators for Maryland is based on estimated cargo and passenger volume. These will be revised, as more data become available. Therefore, the leading index for December is based on data for eight variables, and estimates for two. Data suggest that the leading index rose slightly in December, with six of the ten components up.

The coincident index rose to 109.5 in December 1999, compared to 109.3 a month ago, and up from 107.4 a year ago. Similar to last month, only two of the three coincident index measures—nonagricultural employment and the unemployment rate—improved from a year ago, while average weekly hours in manufacturing declined from a year ago. Year-over-year, the index rose by 2 percent in December, indicating that economic activity continues to improve. The leading index continues to signal a positive momentum for the Maryland economy in the early part of the new year.

Maryland Leading Composite Index			
Year	Month	Index	Change
1998	December	105.99	-0.40%
1999	January	107.50	1.43%
1999	February	108.42	0.85%
1999	March	107.99	-0.40%
1999	April	108.56	0.52%
1999	May	108.96	0.37%
1999	June	109.18	0.20%
1999	July	110.06	0.80%
1999	August	109.68	-0.34%
1999	September	108.73	-0.87%
1999	October	109.85	1.02%
1999	November	109.95	0.09%
1999	December	110.86	0.83%

Source: Maryland Department of Business & Economic Development, Office of Business & Economic Research.



Net Contribution By Components of the Maryland Leading Index											
Maryland									U.S.		
Year	Month	Average Weekly Hours	BWI Cargo	BWI Passengers	New Residential Permits	Sun Help-Wanted Counts	Initial Unemployment Claims	Stock Index	Leading Economic Indicator	Yield Curve	Consumer Confidence Index
1999	Sep	-0.1198	0.0049	-0.0723	-0.0097	-0.0825	-0.3239	-0.1366	-0.0702	-0.0329	-0.0262
1999	Oct	0.3256	-0.0403	0.1120	0.0036	-0.0304	0.2728	0.0310	0.0702	0.0493	0.2246
1999	Nov	-0.2159	0.0233	-0.5107	0.1121	0.1072	0.1781	0.2289	0.2101	-0.0224	-0.0201
1999	Dec	-0.1678	0.6041	0.0271	0.0946	-0.0312	-0.3237	0.3289	0.2793	0.0713	-0.0577

Source: Maryland Department of Business & Economic Development, Office of Business & Economic Research.

Other Economic Indicators *(Continued from page 2)*

- Year-end data show that 1999 was a very strong year for the automobile industry. New car registrations rose 5.8 percent in Maryland from December 1998 to December 1999. Nationally, new auto registrations were up 12.8 percent.
- The number of visitors at state welcome centers in-

creased 10 percent from December 1998 to December 1999. Over the year, hotel/motel sales tax revenues rose nearly 31 percent. However, amusement and admission tax revenues dropped 9.6 percent for the year.

- The Maryland stock index (*Sun-Bloomberg 100*) posted a strong rise in November, up from 187.1 in October to 201.5. Over the year, the index was up 2.7 percent.

Snapshot Maryland *(continued from page 1)*

Labor and job market indicators were strong in 1999. In Maryland, the number of employed persons grew faster than labor force, resulting in a sharp drop in the state's unemployment rate. Maryland's unemployment rate fell from 3.5 percent a year ago to only 2.8 percent in December 1999. The national unemployment rate also fell, but somewhat less, from 4.0 percent to 3.7 percent. Maryland's Temporary Cash Assistance caseload fell 20 percent over the year, while Unemployment Insurance (UI) claims fell 8.5 percent.

In another sign of a strong job market, the *Baltimore Sun* help-wanted counts rose 74 percent over the year. New automobile registrations rose strongly—up nearly 16 percent in Maryland and up 13 percent nationally. The housing market finally slowed toward the end of the year, partly because of recent interest rate increases and the expectation of additional rate hikes in the future. The Fed raised

key rates by a quarter of a percentage point in February. Given the continuing strength of the economy, more rate increases are likely. Existing home sales fell 2.6 percent in Maryland and fell 5.2 percent nationally. Permits for new residential units also fell—5.9 percent in Maryland and 6.5 percent in the nation.

**Labor Market Trends, December 1999
(Percent Change, Dec. 1998 - Dec. 1999)**

	Maryland	U.S.
Growth of Civilian Labor Force	0.5	1.2
Employment by Place of Residence	1.3	1.5
Job Growth (by place of work)	2.1	2.1
Temporary Cash Assistance - Caseload	-20.0	—
Change in Initial UI Claims	-8.5	-15.3
Help-wanted Counts	74.0	—
Unemployment Rate (current month, %)	2.8	3.7

Sustaining the Current Expansion *(Continued from page 3)*

straining the economy's capacity to produce and adding to inflationary pressures.

This excess of demand over supply of goods and services shows up in other areas of the economy, such as reduced private savings and an expanding trade deficit. The *Conference Board's* Consumer Confidence Index reached an all-time high in January, buoyed by strong personal income gains and increases in stock prices. Taken together, rising income and wealth have contributed to lowering the personal saving rate to 2.4 percent in 1999, from nearly 9.0 percent in 1992. As a result, reduced household savings relative to strong private investment have contributed to increased inflows of foreign capital, even as the government sector has moved toward a surplus. These capital inflows are helping to finance the burgeoning trade deficit.

Rapid growth in demand relative to supply has also translated into increasing labor market pressures. The seasonally-adjusted U.S. unemployment rate fell to 4.0 percent in January, the lowest rate since January 1970, and employers are having problems finding skilled workers. But there are limits to drawing down the pool of available workers without stimulating inflationary pressures. Indeed, the widely followed employment cost index rose by 1.0 percent in the fourth quarter of 1999, faster than consensus estimates. To be fair, employee compensation has not shown signs of significant acceleration, but the issue for policymakers is addressing incipient pressures before they become a problem. The influx of a

large number of foreign workers with temporary work permits has helped address many of these problems—a shortage of skilled workers, the Y2K transition, and sustaining high productivity.

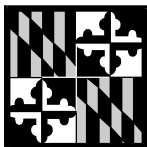
Rising productivity has been a key component in helping increase the potential output of the nation and absorbing some of the impact of the economy's imbalances. Recently released data indicate that output per hour in the nonfarm business sector jumped at a 5.0 percent annual rate in the last quarter of 1999. For the year, nonfarm business productivity rose by 2.9 percent, the largest annual increase since 1992. In turn, anticipated future gains in profitability, due to productivity increases, have stimulated stock prices.

If economic growth were driven solely by productivity and labor force growth, then there would be no concern over economic imbalances. But, more likely, the economy is running beyond its potential output, even allowing for productivity improvements. It is this imbalance between demand and supply for goods and services that the Federal Reserve is most likely to focus its attention on, while indirectly addressing other excesses in the economy. Indeed, the central bank recently raised the target for the Federal Funds rate, a widely followed short-term interest rate, to 5.75 percent. The Federal Reserve also raised the loan rate it charges depository institutions—the discount rate—to 5.25 percent. Further interest rates hikes are probably on the horizon, so stay tuned; the ride could get bumpy.

Selected Monthly Economic Indicators

Selected Indicators	Maryland			U.S.		
	December 1999	Percent Change From Last Month	Percent Change From Last Year	December 1999	Percent Change From Last Month	Percent Change From Last Year
Labor Market						
Labor Force (U.S. in Thousands)	2,803,376	-0.64	0.54	139,941	0.03	1.19
Employment (U.S. in Thousands)	2,724,570	-0.24	1.25	134,696	0.13	1.48
Unemployment Rate	2.8	-12.50	-20.00	3.7	-2.63	-7.50
Sun Help-Wanted Counts, Baltimore MSA	24,900	-17.28	74.03	—	—	—
Initial Claims for Unemployment Insurance	24,216	92.28	-8.47	1,682,070	29.44	-15.34
CA Caseload	31,609	0.30	-20.00	—	—	—
TCA Cases Closed	2,951	-14.74	-44.20	—	—	—
Jobs & Sectors						
Total Non-Agricultural Employment (Thousands)	2,418.7	0.40	2.11	130,694	0.08	2.08
Mining (Thousands)	1.3	-7.14	0.00	527	-0.75	-7.54
Construction (Thousands)	146.5	-0.75	1.10	6,290	-3.07	3.66
Manufacturing (Thousands)	178.3	0.17	0.39	18,370	-1.18	-1.43
FIRE (Thousands)	138.6	0.43	2.44	7,667	0.20	1.93
TCU (Thousands)	114.8	0.44	3.61	6,948	0.58	2.98
Trade (Thousands)	561.3	1.50	1.91	30,709	1.21	2.11
Service (Thousands)	829.3	-0.12	3.40	39,538	-0.14	3.86
Business (Thousands)	213.5	0.76	4.71	9,467.5	-0.04	6.34
Health (Thousands)	200.2	0.25	0.75	10,053.1	0.15	1.40
Government (Thousands)	448.6	0.47	0.58	20,677	-0.15	1.65
Average Weekly Earning (\$)	605.28	-0.54	-0.27	603.50	1.57	3.48
Average Weekly Hours	41.6	-0.95	-2.12	42.5	0.71	-0.23
Business & Consumer Markets						
BWI Cargo (Metric Tons)	N/A	N/A	N/A	—	—	—
BWI Passengers (Millions)	N/A	N/A	N/A	—	—	—
Electric Meters Installed, Commercial	342	31.54	34.12	—	—	—
Electric Meters Installed, Residential	1,534	0.26	11.00	—	—	—
Electricity Sales, Commercial (Millions of kWh)	1.57	10.68	6.66	—	—	—
Electricity Sales, Residential (Millions of kWh)	1.04	33.26	6.50	—	—	—
Existing Home Sales (US in Thousands)	5,590	5.75	-2.58	5,060	-1.36	-5.24
New Auto Registration	28,651	-1.37	15.78	1,388,377	13.54	12.79
New Residential Permits Authorized	2,448	8.56	-5.88	117,120	-3.31	-6.51
Tourism						
Hotel/ Motel Occupancy Rate (%) ¹	61.6	-17.20	3.70	—	—	—
State Welcome Center Visitors	111,911	-12.34	9.99	—	—	—
Amusement & Admission Tax (Millions of Dollars)	2.89	12.92	-9.58	—	—	—
Hotel /Motel Sales Tax (Millions of Dollars)	2.85	-20.31	30.80	—	—	—
Indexes						
Leading Index	110.86	0.83	4.59	108.7	0.37	2.35
CPI	N/A	N/A	N/A	168.3	0.00	2.68
Stock Index	224.34	11.31	17.76	1,428.68	2.71	20.05

Note: (1) Hotel/Motel Occupancy Rate data is for November.



Economic Pulse

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